Influencing Factors of Tax Avoidance

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Abstract—One of the company's management efforts to earn the expected profit is to conduct tax planning, namely through tax avoidance. Tax avoidance is an attempt to reduce the amount of taxes in a way that does not violate the rules of taxation legislation. This research is conducted to know the factors that influence tax avoidance, such as to test the effect of leverage, Return on Asset (ROA) and size or company size to tax avoidance. The sample is determined based on purposive sampling method toward manufacturing companies listing in Indonesia Stock Exchange period 2012-2016 and found 29 samples of the company so total observation in this research is 145 observation. The data used in this study are secondary data, in the form of financial statements and annual reports downloaded through the official website IDX: www.idx.co.id. Data were analyzed by using regression analysis of panel data processed using Eviews software version 8.0. Hypothesis testing by using statistical test t. The result of this research is that leverage variable has no significant effect to tax avoidance, profitability variable which is proxy with Return on Asset (ROA) have a significant effect to tax avoidance. While the variable size or size of the company has no significant effect on tax avoidance.

Keywords—leverage; return on asset (ROA); size; tax avoidance

I. INTRODUCTION

The company will certainly make efforts in an effort to minimize taxes that will be borne. Actions undertaken by the company in an effort to minimize taxes can be either legal or illegal under the law or called tax evasion and tax avoidance. Tax avoidance is an effort by a company to minimize taxes that must be borne in a legal way, that is utilizing the weaknesses contained in the legislation. In contrast to tax evasion that refers to tax evasion in an illegal way, for example reporting below actual income or high deductions. Because the issue of tax avoidance is a complex and unique issue. On the one hand, tax avoidance is allowed, but on the other hand avoidance of taxes is not desirable. In the context of the Indonesian government, various rules have been established to prevent tax evasion. The application of tax avoidance is described as legally and morally legitimate due to savings in the aspects of tax payments, and it is a good idea.

Tax avoidance activities is one effort to minimize the tax burden is often done by the company. Tax avoidance practice is more utilizing loophole in the provision of taxation of a country so it can be said legal because it does not violate the provisions of taxation (inside tax). Although this tax avoidance practice is an efficiency exercise for the company by legal means but this tax avoidance practice is one of the questions whether this tax avoidance practice has a taxable business objective.

There are several factors that have been studied previously by some researchers in order to know the causes of tax avoidance practices associated with the company's financial condition. Among them by focusing on the level of leverage, the level of corporate profitability and size or size of the company.

Leverage is the level of debt that companies use in financing. The ratio on this leverage compares the amount of debt to equity owned by the company. This ratio is often used by analysts and investors to see how much the company's debt when compared to equity owned by the company or the shareholders. Companies use leverage in order to gain greater profitability than their assets and sources, thereby increasing shareholder profits. If the higher ratio in leverage, then it is assumed that the company has a higher risk to the company's liquidity. So it can be said, the greater the debt the taxable income will become smaller because the tax incentives on interest will be greater. Interest expense arises as a result of a loan to a third party or creditor who has no relationship with the company, this is regulated in Law no. 36 Year 2008. Thus, companies that do not have the capability in equity balances then all the borrowing costs of the taxpayer concerned cannot be taken into account in the calculation of taxable income. This is what is feared will trigger the company in tax avoidance practices.

Profitability is a measuring tool for a performance the company. Profitability describes the ability of a company in generating profit for a certain period at a certain level of sales, assets, and capital stock. Profitability consists of several ratios, one of which is Return On Assets (ROA). ROA is an indicator that reflects the company's financial performance, the higher the value of ROA then the financial performance of the company is categorized well. ROA is seen from the company's net income and the imposition of Income Tax. Performance measurements with ROA show the capability of the capital invested in the overall asset to generate profit. ROA is the ratio of net income tax which also means a measure to assess how much the return of assets owned by the company. Companies that earn profits are assumed not to tax avoidance because they are able to regulate income and tax payments.
Size or a measure of the company can also be one factor in terms of the company's decision to tax avoidance. Size is a value that indicates the size of the company. The size of a company can be known from the total assets of the company. The greater the number of company assets the greater the size of the company. Large companies are likely to tax avoidance profit management efforts.

This study was conducted to test how much influence leverage, Profitability and size to tax avoidance. The sample used in this study is a manufacturing company listed on the Indonesia Stock Exchange, and the period of this study is 2012 until 2016. Based on the above background, the researchers are interested to conduct research with the title: "INFLUENCING FACTOR FACTORS TAX AVOIDANCE” Empirical Study on Manufacturing Companies listed on Indonesia Stock Exchange 2012-2016.

II. METHOD

The type of data used in this study is secondary data in the form of financial statements of manufacturing companies that have been published during the period of 2012 to 2016, taken through the site www.idx.co.id.

A. Sample Research

The population used in this study are all manufacturing companies listed on the Indonesia Stock Exchange in 2012, 2013, 2014, 2015 and 2016. Sampling in this study by using purposive sampling method. The purposive sampling method is the technique of determining the sample with certain consideration [1]. The selected sample is based on the suitability of the characteristics with the sample criteria specified in order to obtain a representative sample.

<table>
<thead>
<tr>
<th>No</th>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Manufacturing companies listed in Indonesia Stock Exchange (IDX) period 2012-2016.</td>
<td>142</td>
</tr>
<tr>
<td>2</td>
<td>Manufacturing companies that publish annual report (annual financial statements) in complete and successive in 2012-2016.</td>
<td>(26)</td>
</tr>
<tr>
<td>3</td>
<td>Manufacturing companies that present annual reports (annual financial statements) using one type of currency that is rupiah.</td>
<td>(12)</td>
</tr>
<tr>
<td>4</td>
<td>Manufacturing companies that do not have a negative profit / loss. Companies that suffer loss means not bear the tax burden. If there is any tax burden, it is the current tax expense.</td>
<td>(33)</td>
</tr>
<tr>
<td>5</td>
<td>Manufacturing companies with Debt to Equity Ratio above one in 2012-2016, so as not to create problems in model estimation.</td>
<td>(42)</td>
</tr>
<tr>
<td>6</td>
<td>Manufacturing companies with an ETR value above 1 in 2012-2016.</td>
<td>(0)</td>
</tr>
<tr>
<td>7</td>
<td>Manufacturing companies are not delisted during the observation period from 2012-2016.</td>
<td>(0)</td>
</tr>
<tr>
<td></td>
<td>The number of research samples</td>
<td>29 x 5 years.</td>
</tr>
</tbody>
</table>

B. Definition and Operational Variables

The definition of operational variables is an explanation of the theoretical meaning of variables that can be observed and measured, and the parameters used in this study are:

1) Variabel dependen (Y)
   a) Tax avoidance : The taxes in this study are proxied using the ratio of effective tax rates (ETR), CETR ratio Income Tax Expense/Profit Before Income Tax.

2) Variabel independen (X)
   a) Leverage (X1): Leverage describes the proportion of long-term debt to total assets owned by the company. This is done to determine the funding decision made by the company.

b) Profitabilitas (X2): Profitability is the ability or performance of a company in making a profit. Profitability can be measured by comparing profit after tax with total assets.

c) Size (X3): In this study, the indicator used to measure the size of the company is the total value of assets. Total asset value is used as an indicator to measure firm size because its value is relatively stable compared to total value of sales and market capitalization. Given the total value of this asset is very large, then the value of natural logarithm (Ln) of total assets to be not too large and the same unit to be incorporated into the equation model.

C. Research Strategy

Analyzer used in this research is by multiple linear regression analysis by using panel data. This study uses quantitative data obtained from annual reports and financial statements of the company in 2012, 2013, 2014, 2015 and 2016. The data obtained from the official website of Indonesia Stock Exchange is http://www.idx.co.id. Data obtained from annual reports and financial statements of the company will be researchers though using software Eviews Version 8.0.

D. Panel Data Regression Model

The data used in this study is the annual time series data (annual) for 5 years, 2012 - 2016 and cross section data as many as 29 manufacturing companies that have been selected based on predetermined criteria.

III. RESULTS AND DISCUSSION

A. Tax Avoidance

One of the company's management efforts to earn the expected profit is to conduct tax planning, namely through tax avoidance (tax avoidance). Tax avoidance is an attempt to reduce the amount of taxes in a way that does not violate the rules of taxation legislation.

Between one country and another country may differ on the view of any scheme that can be categorized as a tax avoidance that is permitted or not. Thus, it could be that a certain tax avoidance scheme in a country is said to be a tax avoidance allowed but in other countries often used is aggressive tax planning.
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Tax avoidance is not an unlawful act, but an act of taking advantage of existing rules to minimize tax liability. The main point of tax avoidance is to reduce tax liabilities by eliminating the economic consequences addressed to individuals and companies that have met the requirements as taxpayers. The legal avoidance of tax avoidance avoids companies not to be directly sanctioned, sanctions can be granted if laws have clearly set limits on tax avoidance [3].

B. Leverage

Leverage is another name for the solvency ratio. Leverage describes the company's level of dependence on debt in finance its operations. In addition, leverage also provides an overview of the capital structure of the company so that it can see the risk of uncollectible debt [4]. Explains that the leverage ratio is a source of funds that creates a fixed financial burden, ie interest to be paid regardless of the rate of profit of the company [5].

Short-term debt is all liabilities that must be paid by the company within a maximum period of one year. Long-term debt is a liability owned by a company whose repayment period is more than one year explain that the selection of debt and capital as a source of funding is an important decision that can affect the value of the company [6].

The four ratios mentioned above, this research uses debt to equity ratio (DER). Because it can measure the number of percentage of the amount given by the creditor in the form of debt to own capital. In the use of assets or funds that have a fixed expense is called interest expense. But in reality this fixed expense or interest can be the burden of all debt.

This leverage is a source of corporate funding from external parties, especially sustainable in the form of long-term debt, in which the interest expense generated from the debt in the long term will reduce the company's profit and reduce the existing tax burden [7].

C. Profitability

Company performance is something generated by the company in a certain period with reference to the standard set. In the achievement of corporate objectives, the company's performance is very important. The performance of a company can be measured through the level of profitability of the company, the ability of a company in generating profits during a certain period at a certain level of sales, assets and capital stock.

Profitability of the company shown through Return On Assets (ROA) reflects the company's financial performance, the higher the value of ROA that can be achieved by the company then the company's financial performance can be categorized well. Performance measurements with ROA show the ability of the capital invested in the overall asset to generate profit. Negative ROA is due to the company's profit in negative condition (loss) as well. This shows the ability of the capital invested as a whole in the asset has not been able to generate profits.

Return On Assets (ROA) are used by investors in predicting earnings and predicting risks in investments, thus giving an impact on investor confidence in the company. In this regard, management is motivated to practice income smoothing so that reported non-fluctuating so as to increase investor confidence. This is in accordance with the theory of political cost hipotesis and positive accounting theory which states that the management company will choose accounting procedures that can delay the reporting earnings current period to the period to come. It aims to avoid tax obligations and various rules that do not benefit the company [8].

Companies that have a high level of profitability can attract investors to invest in the company because it shows the success of management performance in processing the company's operations. Conversely, when the level of corporate profitability is low, then investors tend not interested in investing capital even can attract capital that has been invested [9].

D. Size

Size or Size of a company is a value that indicates the size or size of the company. Company size is a consideration for potential investors. The size of a large company will bring more interest to potential investors. Because it is considered to have good prospects for a longer period of time.

The following will be described test results on hypothesis regression statistical test results t:

1) Hypothesis test results 1, leverage affect tax avoidance: The first hypothesis in this study is Leverage affect Tax Avoidance. The result of regression testing in Table 3 shows that the tcount is smaller than t table (0.060463<1.976931). While the probability result is greater than the level of significance (0.4993>0.05). Based on the above test results can be concluded that H1 which states that Leverage affect Tax Avoidance, rejected. It can be interpreted that there is no significant influence between leverage to tax avoidance as proxy to cash effective tax rate (CETR).

2) Hypothesis test results 2, ROA affect tax avoidance: The second hypothesis in this research is ROA has an effect on Tax Avoidance. The result of the regression test in Table 4 shows the value of t count is greater than t table (0.578311>1.976931). While the probability result is smaller than the level of significance (0.0000<0.05). Based on the above test results can be concluded that H2 which states that the profitability proxies with Return On Assets (ROA) affect Tax Avoidance, accepted. It can be interpreted that there is a significant influence between ROA to tax avoidance which is proxied by cash effective tax rate (CETR).

3) Hypothesis test results 3, size affect tax avoidance: The third hypothesis in this study is Company Size (SIZE) effect on Tax Avoidance. The result of regression testing in table 5, shows the value of t count is smaller than t table (0.000204<1.976931). While the result of probability is greater than the level of significance (0.9449>0.05) The above test results can be concluded that H3 which states that SIZE affect Tax Avoidance, rejected. It can be interpreted that there is no significant influence between SIZE to tax avoidance as proxy to cash effective tax rate (CETR).
IV. CONCLUSION

Based on the results of research on the factors that affect tax avoidance. Empirical study of manufacturing companies listed in Indonesia Stock Exchange (IDX) period 2012-2016, it can be concluded as follows:

- The first variable shows that Leverage has no effect on Tax Avoidance. Based on the test results can be concluded that H1 which states that Leverage affect Tax Avoidance, rejected.
- In the second variable there is a significant influence between ROA to tax avoidance which is proxy with cash effective tax rate (CETR). From the test results concluded that H2 which states that profitability proxies with Return On Assets (ROA) affect Tax Avoidance, received.
- The third variable indicates that firm size or Size there is no significant influence on Tax Avoidance. From the test results can be concluded that H3 which states that SIZE affect Tax Avoidance, rejected.

REFERENCES